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Rise in Oil Price Eases Push for Reform in Russia

By ANDREW E. KRAMER

MOSCOW — Russia's stock market is up about 80 percent this spring, a bounce that is astonishing even by the standards of recent recoveries in other emerging markets.

The problem is that rising oil prices have turned around Russia's prospects so quickly that economists are now warning of a different risk: the crisis may be too short.

The two previous major oil price slumps in the last quarter-century were followed by significant economic and political changes in Moscow that paved the way for future growth. For a time, it seemed the current oil shock would follow the same path.

Indeed, the mood was so glum last winter, when oil dipped below $40 a barrel, that some advisers close to the government suggested that the country might be compelled to open up politically to spur development. At the least, policies encouraging Russia to diversify beyond oil were seen as imminent.

What is needed to diversify the economy and stabilize the financial system, critics of the Russian government say, is an overhaul of the courts and a crackdown on corruption to improve property rights and separate the bureaucracy from the economy.

But with oil prices now above $60 a barrel, the pressure on the government of Prime Minister Vladimir V. Putin to change has eased, even though the stock market remains 44 percent off its high in December 2007. Instead, an economic strategy that amounts to essentially waiting out the downturn is beginning to take shape.

The interplay of change and oil prices is likely to be a major theme at an economic forum opening in St. Petersburg on Thursday, which will be attended by at least 200 emerging market investors.

"The oil price is going up, everything seems to be in order, so why change?" Sergei M. Guriev, dean of the New Economic School in Moscow and a board member of the state-owned Sberbank, said by telephone. "If oil prices go back to where there is no budget deficit, then it will be business as usual."

State banks, for example, are rolling over loans to failing companies rather than requiring them to restructure in bankruptcy, as is the case with General Motors in the United States, on the premise that the Russian economy will quickly turn around, along with the value of oil.

"The big problem with this crisis is it may be too short for Russia," Roland Nash, the chief strategist at Renaissance Capital, a securities firm in Moscow, said in an interview.

At first blush, oil's rapid price rise is fabulous for Russia. For each $1 increase in the price of oil, for example, Russia's government budget earns about $1.7 billion a year, according to Yulia Tseplayeva, the chief economist for Merrill Lynch in Moscow.

Yet in recent Russian history, the two periods of most intensive economic change — both of which were a condition for the boom of the past decade — were preceded by deep and prolonged slumps in oil prices.

In a study of the ties between oil price and policy changes in the late Soviet period, Russia’s former prime minister, Yegor T. Gaidar, says a balance-of-payment shock during the period of low oil prices in the mid-1980s was a major factor in the collapse of the Soviet Union.

In his book “Collapse of an Empire,” Mr. Gaidar argues that the Soviet government turned to West European bank lending as the value of its principal export commodity, crude oil, plunged. That set in play the dynamic that unwound the country even before the uprisings began in the former satellite states.

The Soviets’ lack of a hard currency reserve, and thus dependence on Western lending, limited the Kremlin’s options when nationalist movements broke out. Any forceful response would surely have prompted Western banks and governments to call in their credit lines, which were propping up the Soviet government by allowing food imports.

This balance-of-payments shock also prompted the sweeping privatizations, liberalization of consumer prices and introduction of a convertible currency in the early 1990s — reforms that ultimately put the Russian economy on a modern footing.

A second sustained collapse in oil prices in the late 1990s, in the wake of the Asian economic crisis, led the government of President Boris N. Yeltsin to default on domestic debt and devalue the currency.

That shock also impelled the government to overhaul its tax regime, introducing a 13 percent flat income tax that is easier to collect and helped wean the government from domestic borrowing. In addition, that crash became the impetus for a “never again” policy that led the government to accumulate a huge currency reserve — the third largest in the world going into the current downturn, behind China and Japan.

These reforms stood Russia in good stead for the oil price collapse last autumn, cushioning the impact on the balance of payments and propping up the budget, as intended.

But the vulnerabilities of an economy that is still inadequately diversified showed themselves.

From tumultuous growth, Russia fell quite quickly into a deep recession. Its swing from 8 percent growth in 2008 to a 6.5 percent contraction this year is the most extreme of any major economy in the global slowdown.

Unemployment numbers came in higher than expected in April, at a nine-year high of 10.2 percent. As factories closed in one-industry towns, no alternative sources of employment from small and midsize business could soak up the jobless.

Also, Russian companies had borrowed excessively from Western banks, which pulled back their credit when problems arose in their home markets.

Still, the crisis did usher in some change. Until this year, government ministers or other bureaucrats dominated the boards of state-owned companies, creating a conflict of interest and risk for minority shareholders. Under a policy initiated by President Dmitri A. Medvedev, independent directors are now being appointed to these boards.

In another change that amounts to a de facto tax break for small business, Mr. Medvedev signed a law prohibiting surprise inspections from fire and health authorities of the type often used to collect bribes. Mr. Medvedev required bureaucrats to disclose not only their own income and assets, but those of their spouses as well, plugging a loophole in anticorruption legislation. A draft law prohibiting insider trading, a bane on the Russian market, is before Parliament.

Even more far-reaching measures were envisioned. The Institute for Contemporary Development, a research organization where Mr. Medvedev serves as chairman, published a report in February, back when oil prices were languishing, suggesting political liberalism would be needed to revive the economy.

Now, it is unclear how long a liberal wing will have the upper hand in the economic policy debate in the Kremlin.